

Message Text

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ACTION L-03

INFO OCT-01 EUR-25 ISO-00 EB-11 TRSE-00 DRC-01 H-03

CIAE-00 INR-10 NSAE-00 RSC-01 /055 W

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R 151432Z NVV 73

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 0474

LIMITED OFFICIAL USE BUDAPEST 3719

E.O. 11652: N/A

TAGS: EFIN (L/C)

SUBJECT: KREUTALL BONDS

REF: STATE 216377

1. DURING A MEETING WITH FEKETE YESTERDAY THE AMBASSADOR INQUIRED ABOUT THE STATUS OF NEGOTIAIONS BETWEEN GOH AND AMERICAN HOLDERS OF HUNGARIAN BONDS AND SPECIFICALLY SAID THAT DEPT HAD ASKED HIM TO INQUIRE ABOUT WHEN KREUTALL WOULD RECEIVE REPLY. FEKETE ANSWERED THAT CONTACTS ON BONDS WERE RESPONSIBILITY OF FINANCE MINISTRY, WHICH IS HUNGARIAN NEGOTIATING PARTNER IN THIS MATTER. HE ADDED THAT IT WAS UNLIKELY THAT ANY FINAL AGREEMENT WOULD BE REACHED UNTIL HUNGARY GRANTED MFN. THE DAY FOLLOWING FAVORABLE RESOLUTION OF MFN QUESTION, FEKETE CONTINUED "I WILL BE ON TELEPHONE WITH FINANCE MINISTRY TELLING THEM TO SETTLE BOND ISSUE". PROGRESS ON BONDS HOWEVER, WAS CONNECTED WITH MFN QUESTION. FEKETE ALSO SHOWED NO INTEREST IN CONCLUDING BOND AGREEMENT IN ORDER TO OBTAIN EXIM CREDITS. FEKETE SAID HIS CONNECTION WITH BOND ISSUE WAS THE TEMPORARY ONE OF NEGOTIATING ON THE CLAIMS. HE FELT A MORAL OBLIGATION TO ASSURE BONDS SETTLED IN CONTEXT US EXTENSION OF MFN. IN SUCH CIRCUMSTANCES -- WHICH WERE NOW TEMPORARILY SUSPENDED BECAUSE OF US PROBLEMS IN CONGRESS--HE WOULD EXERT INFLUENCE ON FINANCE MINISTRY. MEANWHILE WE SHOULD DEAL DIRECTLY WITH THEM. HE HAD NO

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OBJECTIONS TO NEGOTIATIONS PROCEEDING, BUT IN RESPONSE TO QUESTION AGAIN INDICATED BONDS AND MFN WOULD BE SETTLED TOGETHER.

2. ON SPECIFIC MATTER OF KREUTALL BONDHOLDINGS, FEKETE STATED THAT HE HAD FORWARDED KREUTALL'S LETTERS TO FINANCE MINISTRY. HE DID NOT KNOW WHETHER MINISTRY HAD REPLIED OR NOT. (EMBASSY ECON OFFICER WILL INQUIRE ABOUT STATUS OF HUNGARIAN REPLY TO KREUTALL WHEN HE CALLS ON AKAR AT THE MINISTRY OF FINANCE NEXT WEEK). FEKETE IS PERSONALLY NOT WELL DISPOSED TOWARD KREUTALL AND SAID HE DID NOT REGARD IT AS AN AMERICAN ENTITY. HE SAID IT WAS OVER 50 PERCENT NON-AMERICAN OWNED, AND QAS PRINCIPALLY A EUROPEAN ORGANIZATION WHICH HAD ADOPTED US NATIONALITY SPECULATING THAT THIS MOVE WOULD GET IT BEST POSSIBLE RETURN ON DEFAULTED OBLIGATIONS. BONDHOLDERS REPRESENTED IN KREUTALL HAD REFUSED TO SETTLE IN SWEDEN AND OTHER COUNTRIES WHERE OBLIGATIONS HAD BEEN MADE. HE ADDED THAT WHATEVER FINAL SETTLEMENT WAS REACHED WITH THE BONDHOLDERS PROTECTIVE COUNCIL, THAT CONCLUDED WITH KREUTALL AND OTHERS NOT REPRESENTED BY THE COUNCIL WOULD BE LESS FAVORABLE. PEDERSEN

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 15 NOV 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: martinjw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BUDAPE03719
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731164/aaaajyzc.tel
Line Count: 88
Locator: TEXT ON-LINE
Office: ACTION L
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: STATE 216377
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 21 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21-Sep-2001 by thigpegh>; APPROVED <20 FEB 2002 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 980312
Subject: KREUTALL BONDS
TAGS: EFIN, HU
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005